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FM AMEMBASSY SINGAPORE  
TO RUEHC/SECSTATE WASHDC 5694  
RUEATRS/DEPT OF TREASURY WASHDC  
INFO RUEHWL/AMEMBASSY WELLINGTON 1452  
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RUEHBN/AMCONSUL MELBOURNE 0263  
RUEHDN/AMCONSUL SYDNEY 0775

UNCLAS SECTION 01 OF 02 SINGAPORE 000936

SENSITIVE

SIPDIS

DEPT FOR EEB/OIA  
TREASURY FOR CBERRY

E.O. 12598: N/A  
TAGS: [EFIN](#) [OREP](#) [PGOV](#) [SN](#)

SUBJECT: SENATOR SHELBY MEETS TEMASEK'S HO CHING, GOS  
OFFICIALS; EMPHASIZES U.S. OPENNESS TO FOREIGN INVESTMENT

REF: STATE 83989

11. (SBU) Summary: Senator Richard Shelby (R-AL) used meetings with Temasek CEO Ho Ching, GOS officials and others on August 25 to emphasize that the United States remains open to foreign investment. The Senator, Ranking Member of the Banking, Housing and Urban Affairs Committee, also stressed the importance of strong anti-money laundering (AML)/counter financing of terrorism (CFT) enforcement. He acknowledged the U.S. business community's competitiveness concerns arising from high U.S. taxes on expatriate Americans. End Summary.

Meeting with Ho Ching  
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12. (SBU) Ranking Member of the Banking, Housing and Urban Affairs Committee Senator Richard Shelby (R-AL) met with Temasek CEO Ho Ching and emphasized that the United States remains open to foreign investment. Ho mentioned that Temasek has filed a new Committee on Foreign Investment in the United (CFIUS) application to expand Temasek's stake in Merrill Lynch. If approved, Temasek could receive shares rather than cash for a USD2.5 billion reset payment stemming from Merrill's recent capital raising, thus allowing Merrill to conserve its cash in this time of market turmoil. The Senator noted that he had worked to establish the CFIUS framework under the leadership of the Department of the Treasury in order to promote foreign investment in the United States, while leaving the U.S. Government the means it needs to address rare cases of a foreign investment that might involve genuine national security issues.

13. (SBU) Ho expressed concern about the U.S. financial turmoil but also an admiration for the way American policy makers actively work to address problems quickly. The United States always, sooner or later, gets to the right solution. The U.S. "underlying capacity for innovation is strong," she said. Senator Shelby recounted his past efforts to address the systemic risks at Freddie Mac and Fannie Mae, and his hope that these two companies would end the crisis smaller in size and with more private sector involvement in the securitized mortgage market.

14. (SBU) Ho told Senator Shelby that Temasek would

announce its annual results the following day. In the press conference that took place on August 26, Temasek reported that its overall assets had grown to USD134 billion from USD109 billion the previous year, thanks in part to an injection of S\$10 billion (USD 7.1 billion) in fresh capital from the Ministry of Finance and the appreciation of the Singapore dollar. While Temasek announced a doubling of group (consolidated) net profit to S\$18 billion (USD12.8 billion) and total share holder return (on mark-to-market basis) of seven percent, the group made a loss of S\$6 billion in group wealth added above their risk-adjusted cost of capital. In other words, the SWF missed its relative return benchmark for the year. Temasek did report, however, that it had earned S\$60 billion above its benchmark over the past five years.

Meeting with Finance PermSec Teo Ming Kian  
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15. (SBU) Permanent Secretary for Finance Teo Ming Kian outlined to Senator Shelby Singapore's strategy for safeguarding its fiscal surpluses for future generations. Ongoing budget support from Singapore's sovereign wealth funds, Temasek and the Government Investment Corporation (GIC), is limited to a maximum of half of that year's interest and dividends and any further withdraws must be approved by a directly elected President.

16. (SBU) Senator Shelby welcomed Singaporean SWF investments in the U.S. financial sector. Teo noted that

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Singapore "has no problem with CFIUS," having navigated the process dozens of times.

Meeting with MAS Managing Director Heng Swee Keat  
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17. (SBU) In a meeting at the Monetary Authority of Singapore (MAS), Managing Director Heng Swee Keat mentioned many challenges facing Singapore, including remaining relevant to its neighbors and trading partners, increasing the fertility rate, and attracting international talent. Senator Shelby expressed his belief that the U.S. financial regulatory structure would change as a result of the current crisis, and mentioned his support for an Optional Federal Charter for insurance. Senator Shelby reiterated the importance of strong AML-CFT regimes and urged stronger enforcement measures.

Lunch with U.S. Business Representatives  
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18. (SBU) In a lunch with private sector representatives, U.S. businessmen asked the Senator to examine the adverse impact arising from high taxes on foreign-earned income of American expatriates. They argued that changes to Section 911 of the tax code which increased the amount of tax charged on housing benefits provided by companies to their employees overseas were making American employees uncompetitive. They expressed concern that these disincentives to hire American expatriates will create competitive problems for U.S. companies in today's global economy. The Senator acknowledged these concerns.

19. (U) Senator Shelby's staff cleared this cable.  
HERBOLD